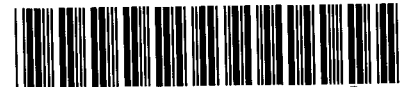


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BEFORE THE ARIZONA CORPORATION COMMISSION

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ARIZONA CORPORATION COMMISSION  
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**COMMISSIONERS**

KRISTIN K. MAYES - Chairman  
GARY PIERCE  
PAUL NEWMAN  
SANDRA D. KENNEDY  
BOB STUMP

IN THE MATTER OF THE APPLICATION OF  
CORONADO UTILITIES, INC. FOR A  
DETERMINATION OF THE FAIR VALUE OF  
ITS UTILITY PLANT AND PROPERTY AND  
FOR INCREASES IN ITS WATER AND  
WASTEWATER RATES AND CHARGES FOR  
UTILITY SERVICE BASED THEREON.

DOCKET NO. SW-04305A-09-0291

**ARIZONA CORPORATION COMMISSION  
UTILITIES DIVISION STAFF'S CLOSING  
BRIEF**

Coronado Utilities, Inc. ("Coronado" or "the Company") is a class B public utility service corporation providing wastewater service to approximately 1,300 customers located in unincorporated San Manuel in Pinal County.<sup>1</sup> On June 3, 2009 Coronado filed an application for a rate increase based upon the twelve-month test year ending December 31, 2008.<sup>2</sup> A hearing in this matter was held on May 5, 2010.

The Arizona Corporation Commission Utilities Division Staff ("Staff") is recommending a revenue increase of \$141,223 resulting in an adjusted test year revenue requirement of \$1,010,127 or a 16.25 percent increase over test year revenues.<sup>3</sup> Staff and the Company both agree to a weighted average cost of capital of 7.36 percent.<sup>4</sup> Staff recommended a 10.5 percent cost of equity.<sup>5</sup> Although Staff did not adopt the Company's cost of capital methodology, or underlying components, Staff believes that the 7.36 percent rate of return is appropriate and comparable to that adopted by the Commission in other recent decisions.<sup>6</sup>

There are very few issues remaining in dispute in this case. The main area of dispute is Staff's recommendation that the Commission normalize the Company's fluctuating bad debt expense for the years 2006, 2007, and 2008. Staff agrees with the Company's proposed reconnection tariff to be charged to customers who are disconnected and reconnected due to delinquent payment. However,

Arizona Corporation Commission

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<sup>1</sup> Ex. S-2 Direct Testimony of Gary McMurry at 3:13-15.

<sup>2</sup> Ex. S-2 Direct Testimony of Gary McMurry at 3:15-22.

<sup>3</sup> Staff Final Schedule GTM-1

<sup>4</sup> Tr. at 182:18-20.

<sup>5</sup> Tr. at 182:21-183:8.

<sup>6</sup> Ex. S-2 Direct Testimony of Gary T. McMurry at 23:13-19; Tr. at 182:16-183:9.

1 Staff also recommends that language be included in the Commission order allowing for the tariff to  
2 be amended should Arizona Water Company agree to work with Coronado and enter into a water  
3 service termination agreement.

4 **I. BAD DEBT EXPENSE.**

5 The Company's bad debt expense should be normalized to \$18,432, the mean average for the  
6 years 2006, 2007, and 2008.<sup>7</sup> The Company's bad debt has fluctuated widely since 2006, from  
7 \$3,483 in 2006, to \$5,500 in 2007, and \$46,313 in the test year.<sup>8</sup> The test year bad debt expense  
8 amount is over eight times greater than the Company's 2007 bad debt expense amount. Expenses  
9 such as this are generally more appropriately normalized.<sup>9</sup> Staff has consistently recommended  
10 normalization of widely fluctuating bad debt expense as noted in Staff's pre-filed testimony in the  
11 recent Litchfield Park Service Corporation (09-0104) and Arizona-American (09-0343) rate cases.<sup>10</sup>  
12 As acknowledged by Mr. Bourassa and Mr. McMurray, normalization is a recognized ratemaking  
13 principle that the Commission uses frequently.<sup>11</sup>

14 The Company's bad debt expense for the test year is not normal.<sup>12</sup> As Mr. McMurray noted,  
15 Historically speaking, in the companies I have seen, bad debt expense as a ratio of  
16 revenues is much lower. It tracks anywhere from --- it tracks around a quarter of 1  
17 percent, whereas in the company's case, that \$46,000 bad debt expense as a  
18 percentage of test year revenue would be like 5 percent. So we are talking about  
19 magnitudes higher.<sup>13</sup>  
20 Coronado agrees that it has a higher bad debt expense level than the average for water and  
21 wastewater utilities.<sup>14</sup> In fact, Mr. McMurray explained even Staff's proposed normalized bad debt  
22 expense represents a higher percentage of the company's revenues than that of companies he had  
23 seen in the past.<sup>15</sup> The three year normalization period of 2006-2008 is also appropriate because it  
24 matches the normalization period used for rate case expense.<sup>16</sup>

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25 <sup>7</sup> Staff Final Schedule GTM-9.

26 <sup>8</sup> Ex. S-2 Direct Testimony of Gary T. McMurray at 8:21-24.

27 <sup>9</sup> Ex. S-3 Surrebuttal Testimony of Gary T. McMurray at 8:21-23.

28 <sup>10</sup> Tr. at 183:10-16.

<sup>11</sup> Tr. at 114:8-11, 115:2-6, 172:25-173:9, and 184:1-3

<sup>12</sup> Tr. at 156:6-7 and 183:17-25.

<sup>13</sup> Tr. at 183:19-25.

<sup>14</sup> Tr. at 112:3-8.

<sup>15</sup> Tr. at 185.

<sup>16</sup> Ex. S-3 Surrebuttal Testimony of Gary T. McMurray at 10:16-17.

1 The Company states that it had \$46,313 in bad debt during the test year.<sup>17</sup> At the hearing Mr.  
2 Williamson stated that he did not believe that the Company's bad debt expense fluctuated greatly.<sup>18</sup>  
3 He stated, "I would describe it as, I think, a natural progression of a new utility trying to correctly  
4 record and, using procedures, get the bad debt up to reality over time, over a three-year period."<sup>19</sup>  
5 However, as the Company admitted, it was not recording bad debt initially.<sup>20</sup> Additionally, as the  
6 Company notes, \$22,506 of the bad debt recorded in the test year was delinquent prior to the  
7 implementation of the phase three rates.<sup>21</sup> Regarding its "aggressive" posting of bad debt expense in  
8 2008, the Company states:

9 Because Coronado was newly formed in 2006, and because the final (phase 3) rates  
10 did not go into effect until July of 2008, we chose to not aggressively post bad debt  
11 prior to 2008. The goal of delaying the recognition of bad debt was two-fold; to give  
our customers every opportunity to become acclimated to the new situation . . . .<sup>22</sup>

12 Therefore, the extremely high level of bad debt expense in 2008, was largely the result of the  
13 Company's decision not to post bad debt prior to 2008.

14 The Company argued that the primary reason for higher bad debt expense in the test year  
15 related to the \$9.5 increase in phase 3 rates that went into effect as of July 1, 2008.<sup>23</sup> However, as  
16 Mr. McMurry noted, this does not comport with the Company's own history as, "the company  
17 experienced no similar increase in bad debt expense when rates increased \$10.00 from \$27.00 to  
18 \$37.00 as a result of the adoption of the phase 2 rate increase effective June 30, 2007."<sup>24</sup> The  
19 Company also argues that the normalized bad debt expense level as proposed by staff does not  
20 represent a known and measurable change to the test year.<sup>25</sup> However, as acknowledged by Mr.  
21 Bourassa, the bad debt expense levels from 2006, 2007, and 2008 are also known and measurable.<sup>26</sup>

24 <sup>17</sup> Ex. S-3 Surrebuttal Testimony of Gary T. McMurry at 8:16-17; Ex. S-1 (response to GTM 4.6); Ex. A-2 Rebuttal  
25 Testimony of Jason Williamson at 2:20-22.

<sup>18</sup> Tr. at 100:8-17.

<sup>19</sup> Tr. at 100:14-17.

<sup>20</sup> Tr. at 101:7-9.

<sup>21</sup> Tr. at 60:11-15.

<sup>22</sup> Ex. A-2 Rebuttal Testimony of Jason Williamson at 4:11-16.

<sup>23</sup> Ex. S-2 Direct Testimony of Gary T. McMurry at 9:5-9.

<sup>24</sup> Ex. S-2 Direct Testimony of Gary T. McMurry at 9:11-14.

<sup>25</sup> Ex. A-6 Rebuttal Testimony of Thomas Bourassa at 8:12; Tr. at 112:16-21.

<sup>26</sup> Tr. at 112:22-24.

1 The reconnection tariff, if approved by the Commission in this rate case, may have the effect  
2 of reducing bad debt expense levels.<sup>27</sup> Likewise, if Coronado and Arizona Water Company were able  
3 to enter into a water service termination agreement, bad debt expense levels would likely reduce.<sup>28</sup>  
4 Mr. Williamson even implicitly acknowledges that a reconnection tariff could aid the Company in  
5 reducing bad debt expense when he stated: "Coupled with Staff's refusal to include verbiage in our  
6 tariff that makes customers responsible financially for the physical costs of disconnection/  
7 reconnection, we are left with no other option than to include a realistic bad debt expense in our rate  
8 structure."<sup>29</sup> Staff's proposed normalized bad debt expense amount should be adopted because it  
9 represents a more reasonable and accurate level of the Company's historic bad debt expense levels.

## 10 **II. LOW INCOME TARIFF.**

11 The Company and Staff are now in agreement regarding the structure of low income tariff as  
12 well as the recovery of costs associated with its administration. The Company agrees with Staff to  
13 the 150% of federal poverty level qualifying income for low income tariff.<sup>30</sup> The Company also  
14 agrees with Staff's recommended cap of 400 customers in the low income discount program. The  
15 Company estimates that approximately 150 to 350 customers qualify at the 150% (of federal poverty  
16 level) income.<sup>31</sup> The Company and Staff agree that the 400 person cap is a reasonable number.<sup>32</sup>

17 Staff recommends that the Company be allowed to collect its actual costs directly related to  
18 administration of the low income tariffs as opposed to the 10% fee initially proposed by the  
19 Company.<sup>33</sup> Because the direct costs are not known at this time,<sup>34</sup> allowing the actual costs (as  
20 opposed to the 10% administration fee initially proposed by the company) is most appropriate.<sup>35</sup> As  
21 Mr. McMurry noted, if the direct costs are higher, then the company should be allowed to recover  
22 that.<sup>36</sup>

23  
24  
25 <sup>27</sup> Tr. at 113:16-21.

26 <sup>28</sup> Tr. at 114:1-5.

27 <sup>29</sup> Ex. A-2 Rebuttal Testimony of Jason Williamson at 4:24-5:2.

28 <sup>30</sup> Tr. at 80:10-81:2.

29 <sup>31</sup> Tr. at 81:3-24.

30 <sup>32</sup> Tr. at 82:1-10.

31 <sup>33</sup> Ex. S-2 Direct Testimony Gary T McMurry at 21:9-10.

32 <sup>34</sup> Tr. at 123:10-125:23.

33 <sup>35</sup> Tr. at 173:12-24.

34 <sup>36</sup> Tr. at 173:21-24.

1 **III. RECONNECTION TARIFF AND WATER SERVICE TERMINATION**  
2 **AGREEMENT WITH ARIZONA WATER COMPANY.**

3 Typically, in Arizona, public utility water providers also provide sewer service and thus when  
4 a customer fails to pay its bill, the water service can be shut off leaving sewer access connected.<sup>37</sup>  
5 However, here the customers in Coronado's service territory have separate sewer and water  
6 providers. Acknowledging that Arizona Water Company is not a party to this proceeding and that  
7 Coronado cannot force Arizona Water Company to enter into a water services termination agreement,  
8 Staff recommends a reconnection tariff that would allow Coronado Utilities to collect the cost of  
9 disconnection and reconnection from its delinquent customers as proposed in Coronado exhibit A-9.<sup>38</sup>

10 Staff recommended that prior to the implementation of the reconnection tariff, Coronado  
11 Utilities make, and document for the Commission, all reasonable efforts to work with Arizona Water  
12 Company to develop and execute a water service termination agreement.<sup>39</sup> At the hearing Coronado  
13 introduced, as an exhibit, a letter that was sent from Jason Williamson, President of Coronado  
14 Utilities to Bill Garfield with Arizona Water Company inquiring into Arizona Water Company's  
15 willingness to discuss a water service termination agreement.<sup>40</sup> The Company has also docketed a  
16 letter from Arizona Water Company expressing Arizona Water Company's lack of desire to negotiate  
17 a water service termination agreement with Coronado. Staff is satisfied that Coronado has made  
18 sufficient effort to engage Arizona Water Company on this issue and Staff recommends that the  
19 Company's proposed reconnection tariff be granted without further conditions. However, Staff  
20 recommends that language be included in the Commission order in this case allowing later  
21 amendment of the reconnection tariff granted to Coronado should a water service termination  
22 agreement be entered into after the conclusion of this rate case.

23  
24  

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<sup>37</sup> Tr. at 80:1-9.

25 <sup>38</sup> Ex. S-3 Surrebuttal Testimony of Gary T. McMurry at 3:6-12; Exhibit A-9 Proposed Wastewater Service Charges.

26 <sup>39</sup> Ex. S-2 Direct Testimony of Gary T. McMurry at 16:15-23; Ex. S-3 Surrebuttal Testimony of Gary T. McMurry at  
27 3:13-4:15.

28 <sup>40</sup> Ex. A-8 Letter to Bill Garfield (Arizona Water Company) from Jason Williamson (Coronado Utilities).

1 The benefits to Coronado's customers of a water service termination agreement are clear.  
2 Coronado and Staff are in agreement that avoiding sewer disconnection is in the best interest of  
3 Coronado's customers.<sup>41</sup> As Mr. Williamson explained, the disconnection of a sewer main is very  
4 intrusive and costly process involving heavy machinery to excavate potentially as far as 10 feet to  
5 reach the sewer main.<sup>42</sup> Additionally, the costs of sewer disconnection are exponentially greater than  
6 the costs of water disconnection as expressed by Mr. Williamson:

7 Q. Do you know the average cost of approximate cost of disconnection and  
8 reconnection?

9 A. In the one instance that we looked at, the estimates that were provided for a  
10 fairly deep lateral was around \$8,000.

11 Q. Okay. . . . And I understand you are a sewer company and not a water  
12 company, but do you have any idea what the cost would be of shutting off  
13 water?

14 A. I don't. Well, we manage water companies, too. And it is probably \$50 or  
15 something like that.

16 This costly and intrusive procedure could easily be avoided through a water service termination  
17 agreement between Arizona Water Company and Coronado. Staff's recommended water service  
18 termination agreement would allow Arizona Water Company to recover its lost revenue.<sup>43</sup>

19 There are also severe potential health and safety concerns involved in capping sewer mains as  
20 wastewater would eventually begin to flow backwards into the customers home should the customer  
21 continue to use water.<sup>44</sup> Staff engineer Katrin Stukov also noted that with old sewer lateral lines, the  
22 capping of the sewer main and lateral could result in problems with the structural integrity of the  
23 sewer lateral line.<sup>45</sup>

24 Because of the potentially severe economic and health and safety consequences of sewer  
25 disconnection, a water termination agreement between Arizona Water Company and Coronado would  
26 be in the best interest of Coronado's customers. However, because Staff acknowledges that  
27 Coronado's efforts to engage in discussion with Arizona Water Company have been refused, Staff  
28 recommends Commission approval of the reconnection tariff as proposed by the Company. Staff  
further recommends that the Commission include language in its order in this case allowing for later

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<sup>41</sup> Tr. at 71:17-20 and 187:2-4.

<sup>42</sup> Tr. at 67:12-71:21.

<sup>43</sup> Tr. at 185:19-22.

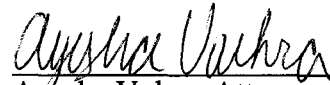
<sup>44</sup> Tr. at 69:16-70:21.

<sup>45</sup> Tr. at 144:25-145:6.

1 amendment of the reconnection tariff in the event that Arizona Water Company and Coronado are  
2 able to reach a water service termination agreement in the future. Staff believes that the public  
3 interest strongly weighs in favor of a water service termination agreement.

4 For the foregoing reasons Staff respectfully requests the Commission to adopt its reasonable  
5 and well supported recommendations in this rate case.

6 RESPECTFULLY SUBMITTED this 3<sup>rd</sup> day of June, 2010.

7  
8   
9 Ayesha Vohra, Attorney  
10 Legal Division  
11 Arizona Corporation Commission  
12 1200 West Washington Street  
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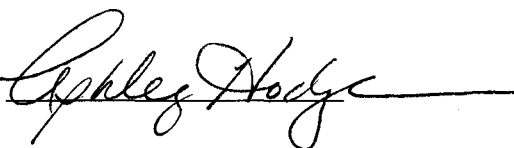
13 Original and thirteen (13) copies  
14 of the foregoing filed this  
3<sup>rd</sup> day of June, 2010 with:

15 Docket Control  
16 Arizona Corporation Commission  
17 1200 West Washington Street  
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18 Copies of the foregoing mailed this  
19 3<sup>rd</sup> day of June, 2010 to:

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